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June 9, 2009

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SUBJECT: DISTRICT ATTORNEY CASH CONTROLS REVIEW

Introductory Remarks

In compliance with Article V, Section 6, of the San Bernardino County Charter, the Board of Supervisor's Policy Statement on Internal Operational Auditing, and the Internal Controls and Cash Manual (ICCM), we have completed a review of the District Attorney. Our review was conducted in accordance with the Standards for the Professional Practice of Internal Auditors.

Background

The Board of Supervisors, by resolution, establishes cash funds for county departments to facilitate their operations. The Board has delegated the County Auditor/Controller-Recorder (ACR) the authority to establish cash funds up to \$2,500. Several different types of cash funds are used throughout the County, including petty cash funds, change funds, and cash shortage funds. Ordinarily, departments use petty cash funds to buy small items, change funds to make customer change and cash shortage funds to reimburse cash shortages that occur during daily operations. Although these cash funds may differ in amount and purpose, the general guidelines governing their establishment, maintenance, dissolution and reconciliation is the same. Departments designate a fund custodian to be in charge of the fund. At all times the fund custodian must be able to account for the fund in the form of cash, vouchers and receipts. Periodically, ACR Internal Audits Section performs surprise cash counts of these cash funds. Upon demand of ACR or the Board of Supervisors, a department's Fund Custodian is to give an accounting of the fund.

ACR has documented some general cash controls in the ICCM for departments with cash funds. However, each department head or authorized designee is responsible to develop and implement the necessary guidelines and procedures required to control, safeguard and handle cash.

Objectives, Scope and Methodology

Our overall objective was to determine whether cash handling controls practiced by the department effectively safeguard cash. Specific review objectives were to determine whether:

1. The department made deposits timely and intact.
2. The department properly maintained and secured its petty cash fund.

We reviewed internal controls over cash for the period of August 1, 2008 through October 31, 2008. Our review included surprise cash counts, verification of deposit records, inquiries of staff, observation of cash handling procedures and other review procedures considered necessary.

Conclusion

As a result of our analysis and tests performed, we concluded that cash handling controls practiced by the department did not always effectively safeguard cash. We determined that:

1. The department made deposits intact; however, they were not always timely.
2. The department did not appear to properly maintain and secure its petty cash fund.

We identified several procedures and practices that could be improved. We have listed these areas and our recommendations for improvement in the Findings and Recommendations section of this report.

We sent a draft report to the department on and discussed our observations with management on April 23, 2009. Management's responses have not been altered in any way and are included below as they were provided to us.

Findings and Recommendations

Finding: Lack of Segregation of Duties

According to the Internal Controls and Cash Manual 2008 Version (ICCM) chapter 2 no one person should be assigned concurrent duties that would allow him/her complete control over a transaction or an asset.

The following conditions were disclosed during our review:

- The fiscal specialist completes all the steps in the cash process for all petty cash (including checking accounts) except the witness protection petty cash.
- The Office Assistant IV completes all the steps in the cash process except distributing the cash for the witness protection petty cash

The department was not aware of the need to segregate duties associated with the cash process.

Since the departments does not separate the duties of maintaining, recording and reconciling cash receipts, an employee can misappropriate cash and conceal it.

Recommendation:

We recommend that management segregate the cash handling and bookkeeping duties. For example, one employee should handle everything associated with custody of cash (collecting cash receipts and preparing deposits), another employee should handle accounting for the cash (recording) and another employee (of a higher ranking job code than the custodian) should handle reconciling the cash and transactions.

Management's Response:

As recommended, the District Attorney has segregated the cash handling and bookkeeping duties by assigning duties as follows: An assigned fiscal specialist will be the custodian of cash and will collect cash receipts and prepare deposits. An assigned fiscal assistant will handle accounting for the cash and will record cash transactions in a ledger. An assigned staff analyst will handle reconciling the cash and transactions.

Auditor's Response:

The Department's actions will correct the deficiencies noted in the finding.

Finding: Lack of Monthly Reconciliation

According to the ICCM chapter 4 a critical step in properly maintaining a cash fund is periodic reconciliation. County departments must reconcile their cash funds at least once a month. An employee other than the fund custodian and of a higher-ranking job code should complete the fund reconciliation.

The following conditions were disclosed during our review:

- Currently, the department does not perform a monthly reconciliation for the general petty cash and the victim aid petty cash.
- The witness protection fund is reconciled weekly by the Office Assistant IV. The ledger and cash balance is then reviewed by the Assistant Chief, but there is no documentation of a count or review of the reconciliation.
- All of the checking accounts are reconciled monthly but are not reviewed by a higher ranking job code.

The department was not aware of this policy.

Since the department does not complete monthly reconciliations, there is a risk of monies being lost or an employee misappropriating cash and concealing it.

Recommendation:

We recommend that departments reconcile their cash funds at least once a month. An employee other than the fund custodian and of a higher-ranking job code must complete the fund reconciliation.

Management's Response:

As recommended, the department has developed a form and procedures for documenting a reconciliation of cash funds every month. A higher-ranking staff member has been designated to complete each fund reconciliation.

Auditor's Response:

The Department's actions will correct the deficiencies noted in the finding.

Finding: Inadequate Petty Cash Procedures

According to the ICCM chapter 4, when the cash fund is initially established and/or the fund custodian changes, the department must submit a "Signature/Fund Custodian Authorization" form to the Auditor/ Controller-Recorder's (ACR) office. Chapter 4 also states, a department employee completes a petty cash voucher in permanent ink, stating the date, purpose of the expenditure and the amount to be expended. An authorized department employee approves the voucher. The authorizing employee must be of a higher-ranking job code than the requestor.

The following conditions were disclosed during our review:

- There are two signors for checking accounts that do not have the proper authorization on their "Signature/Fund Custodian Authorization."
- There was three items of seven tested that did not contain an authorization on the receipt and out of those seven items tested there was seven items without vouchers.
- The department accepted an e-mail as authorization for the victim aid petty cash.
- The department used the receipt as the authorization for transactions.
- There was one witness protection receipt not signed by three employees.

Management has recently changed signors at the bank and has not updated the forms with the ACR. The department was not aware of the need for using petty cash vouchers but have a procedure in place as a compensating control for the witness protection fund requiring three signatures for each transaction.

Advance authorization on the "Signature/Fund Custodian Authorization" form increases assurance that transactions are executed in accordance with laws, regulations and management policies. By not using vouchers for petty cash there is an increased risk of a loss due to theft, misappropriation or lost cash receipts.

Recommendation:

We recommend that the department complete the "Signature/Fund Custodian Authorization" form, including proper cash authorization, for those individuals who have access to the cash process and turn those into the ACR. We also recommend that the department follow the procedures for petty cash disbursements in the Internal Controls and Cash Manual, located on page 4-8 and 4-9.

Management's Response:

As recommended, the two individuals who had not completed the "Signature/Fund Custodian Authorization" form but who had access to the cash process have now completed a "Signature/Fund Custodian Authorization" and submitted it to ACR. The department has reviewed the procedures for petty cash disbursements in the Internal Controls and Cash Manual (page 4-8 and 4-9) and will continue to follow those procedures for petty cash disbursements.

Auditor's Response:

The Department's actions will correct the deficiencies noted in the finding.

Finding: Inadequate Bank Account Procedures

According to the ICCM Chapter 9, when checks are voided, write the word "VOID" on the face of the check and tear the signature line from the check. Also, it is a good business practice to avoid having outstanding items (checks, adjustments, etc) longer than six months. Chapter 9 explains how all checks must include the following: be pre-numbered, be imprinted with the official bank account title, and display the words "Void six months from issue date."

The following conditions were disclosed during our review:

- Voided checks were not marked "Void" on the face.
- All voided checks have the signature line still in tack, whether signed or not.
- All check stock is missing the display of "Void six months from issue date."
- The funeral/burial fund reconciliation had outstanding items dating prior to June 26, 2007.
- The general petty cash reconciliation had outstanding items dating prior to May 23, 2006.
- The special appropriation reconciliation has outstanding items dating prior to June 29, 2007.
- The witness coordination reconciliation has outstanding items dating prior to June 28, 2007.
- The witness protection reconciliation has outstanding items dating prior to April 10, 2008.

The department did not want to void long outstanding items for fear that they may still be processed by the bank. The department was not aware of the need to display "Void six months from issue date" on the check stock.

Banks do not honor checks dated over six months, thus the department's records do not represent what is actually outstanding.

Recommendation:

We recommend that department complete reviews of reconciliations monthly and document those reviews completed. Also, we recommend that the department stale date any check that has not been presented for payment within six months of the issue date and include the phrase "Void six months from issue date" on the face of their

checks. To finish, we recommend that the department insure that checks be voided correctly with the word "Void" written or stamped on the face of the check and the signature line torn off.

Management's Response:

As recommended, the department will have a higher-ranking staff member review monthly reconciliations and document those reviews. In the future the department will stale date any check not presented for payment within six months of the issue date. All checks issued will have the phrase "void six months from issue date" printed or stamped on each check. In the future, to insure that all checks are voided correctly, each voided check will have the word "Void" written or stamped on the face of the check and the signature line torn off.

Auditor's Response:

The Department's actions will correct the deficiencies noted in the finding.

Finding: Inadequate Policies and Procedures

According to the ICCM chapter 2, all transactions should be properly authorized. Authorizations can take many forms, such as laws, ordinances, standard practice manuals, Board resolutions, approved budget, written policies, and manager's signature. Chapter 2 also states, undeposited monies should be restrictively endorsed immediately upon receipt and physically safeguarded until they are deposited. Further the ICCM chapter 3 states, the department must deposit cash receipts by the next business day when the amount of receipts reaches \$1,000. If lesser amounts are collected, the department should deposit cash receipts at least weekly.

The following conditions were disclosed during our review:

- There is no written policy that states what an allowable expense is for the Victim Aid Account.
- Undeposited monies are not restrictively endorsed upon receipt or locked up until deposit.
- The department had one transaction that was held for 15 days prior to deposit.

Management was not aware of the need to have written policy on allowable costs. Also management was not aware of the need to restrictively endorse checks upon receipt. The department was gathering information for the transaction that was deposited late.

Since the department does not have written policy of what is an allowable cost under the Victim Aid Account cash could be misappropriated. Additionally, since the department did not effectively endorse or physically safeguard their deposits there is a higher risk of monies being lost or misappropriated. If a department does not make deposits timely, they can accumulate large sums of money. Accumulating large sums of money increases the risk of a loss due to theft, misappropriation or lost cash receipts.

Recommendation:

We recommend that the department create written policy and procedures for the Victim Aid Account, including an explanation of what is an allowable cost for the account. Endorse checks upon receipt and that the department locks up the undeposited monies until they are deposited. We also recommend that management make a deposit whenever receipts reach \$1,000 or at least weekly. In the event of gathering information, the department should complete the deposit within one week, and then complete a transfer to correct the entry when the documentation is received.

Management's Response:

As recommended, the Chief of Victim Services has created a written policy and procedure for the Victim Aid Account, including an explanation of what is an allowable cost for the account. That document is on file with Management Services as well as Victim Services. In the future, all checks will be endorsed upon receipt and locked up until they are deposited. Deposits will be made when receipts total \$1,000. Deposits will be made at least weekly even if receipts do not total \$1,000. No check will be held longer than one week before depositing. If identifying information is missing, then the check will be deposited to the general fund and transferred to the correct fund when the information is received.

Auditor's Response:

The Department's actions will correct the deficiencies noted in the finding.

Thank you very much for the cooperation extended by your staff during the course of this review.

Respectfully submitted,

Larry Walker

Auditor/Controller-Recorder

By: 

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